

[skip navigation](#)



[Current Issue](#)

[Archive](#)

[Projects](#)

[Sponsors](#)

[Links](#)

[Home](#)

[Readers Comments](#)

[Frequently Asked Questions](#)

[Acknowledgements and Past Participation](#)

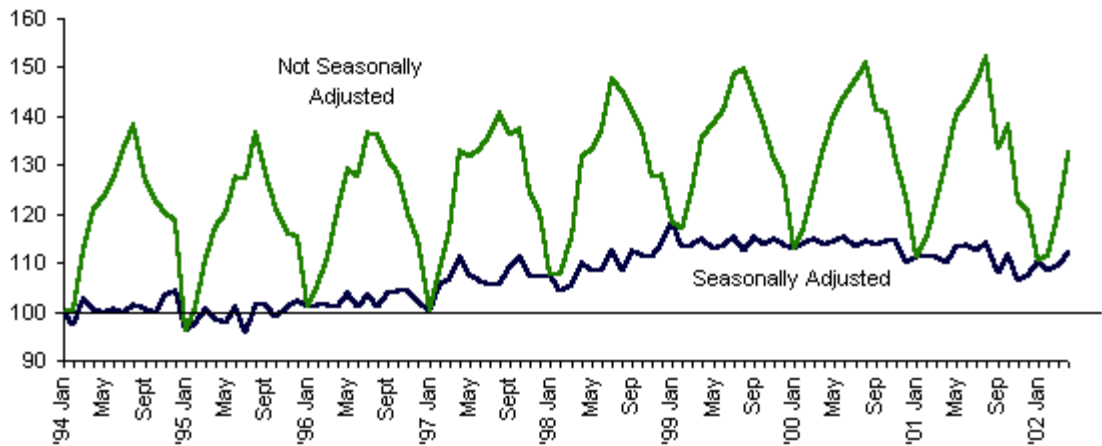
[HSU Economics Department](#)

Professor Steven Hackett, Executive Director  
John Manning, Managing Director

May 2002

This month's report is sponsored by SN Servicing Corporation

Composite Index



Key Statistics		Leading Indicators	
Humboldt County		Seasonally Adjusted	% Change From Previous Month
Median Home Price*	\$159,500	Help Wanted Advertising	+19.1
30 Yr. Mortgage Rate (5/24)	6.875%	Building Permits	-22.2

Average Hotel Occupancy Rate	52.2%	Unemployment Claims	+31.0
Unemployment Rate**	6.4%	Manufacturing Orders	-2.4
* Home price data are provided by the Humboldt County Board of Realtors. MLS is not responsible for accuracy of information. The information published and disseminated by the Service is communicated verbatim, without change by the Service, as filed with the Service by the Participant. The Service does not verify such information provided and disclaims any responsibility for its accuracy. Each Participant agrees to hold the Service harmless against any liability arising from any inaccuracy or inadequacy of the information.			
** Preliminary EDD data. See the <a href="#">EDD Website</a> for updates.			

Sectoral Performance, <i>Index of Economic Activity for Humboldt County</i>							
* * *		Percent Change From:					
Sector	Seasonally Adjusted Sectoral Index Value (1994=100)	Previous Month	Same Month 2001	Same Month 2000	Same Month 1999	Same Month 1998	Same Month 1997
Home Sales	131.8	+3.9	+14.4	+20.7	+42.3	+20.7	+24.7
Retail Sales	146.9	-9.0	+7.4	-1.7	-2.0	+8.0	+11.6
Hospitality	91.1	+4.1	-8.0	+5.2	-5.8	-10.9	-11.4
Electricity Consumption	127.5	+19.7	+4.6	-2.3	-1.9	--	--
Total County Employment	103.0	+0.4	-0.4	-2.1	-2.4	0.0	-0.4
Lumber Manufacturing	95.8	+11.2	-1.3	-17.1	-21.2	-20.8	-27.6

## Discussion

### Composite Index and Overall Performance

The *Index of Economic Activity's* seasonally adjusted composite value, which now stands at 112.0, rose 2.3 percent from last month's upwardly revised figure.

A look at the sectoral performance table shows that five of the *Index's* six sectors registered positive growth during the month of April. Electricity consumption posted the largest gain, but since second quarter energy data will not be available until our July report, the performance in this sector is simply an estimate. That said, the strong performance in lumber manufacturing indicates increased production, which may be behind the increase in electricity use. The lumber manufacturing sector seems to be solidifying after months of difficulties. The pending sale of Eel River Sawmills is moving along, and production at the company may resume in the near future. Home sales, with its impressive year-over-year numbers, was the only sector to log across the board increases this month. Despite doubt over the sustainability of this level of performance, most indications point towards continued growth. The second consecutive month of improvement in hospitality bodes well for the sector as the tourist season gets under way. The employment sector showed modest growth in April. Because there was no change in the size of the local labor force, the county's unemployment rate plunged 11.1 percent to a preliminary 6.4 percent. Finally, retail sales was the only sector to lose ground in April, erasing most of March's large increase. Retail's *Index* value is now 0.4 percent higher than it was in February.

As noted last month, forecasting future activity based on our Leading Indicators is the most difficult aspect of this project. Over the summer, we will be attempting to build a model that will improve our capabilities in this

respect. With this in mind, the current indications for the local economy are less than optimistic. Three of the four Leading Indicators are negative this month. Additionally, the four-month trends shown near the end of this report suggest that this performance is not due to month-to-month volatility. Nevertheless, conditions are probably not as dire as the numbers imply. Help wanted advertising is strongly positive, which means the local labor market should be able to absorb many of the people who filed unemployment insurance claims for the first time this month. Various other factors mentioned below mitigate the decreases in manufacturing orders and building permits.

### Home Sales

This sector continues to perform well with a 3.9 percent increase in April from the previous month. The measure is also up by huge percentages in all of the year-over-year comparisons. A look at the graph below shows that over the past year, this sector has been remarkably consistent. Excluding the shock caused by 9/11, sales remained historically high throughout the twelve-month period.



April's median home price increased as well, rising a strong 6.5 percent to \$159,500. The measure is up 9.2 percent from its April 2001 level (not taking into account the effects of inflation). The current statewide median sale price for existing homes is \$321,950, a one-month rise of 5.2 percent. This figure is up a whopping 26.1 percent from April 2001, when it was \$255,310 ([www.car.org](http://www.car.org)). The national median price for existing homes rose 1.9 percent to \$153,300, while the similar figure for new homes climbed 5.2 percent to \$185,800 ([www.realtor.org](http://www.realtor.org) and [www.census.gov](http://www.census.gov)).

#### What's behind the continued strength of the real estate market?

As stated in last month's report, industry analysts claim three factors are primarily responsible. First, construction of new housing is not keeping pace with the growing population. Second, continued price appreciation, along with a weak stock market, is encouraging people to invest more of their financial resources in real estate. And third, low mortgage rates are allowing more buyers into the market, exacerbating the supply-demand imbalance ([www.sacbee.com](http://www.sacbee.com)).

#### Will the trend continue?

As long as demand is greater than supply, the answer is a likely yes. The Center for Continuing Study of the California Economy in Palo Alto estimates that the state needs between 200,000 and 220,000 new homes and apartments built each year to keep pace with the normal growth in population. The current level of construction is around 150,000 units per year. The situation will probably not improve anytime soon. Recent concerns over sprawl and the resulting loss of open space make it more difficult to develop housing than in the past ([www.sfgate.com](http://www.sfgate.com)).

Nevertheless, some analysts remain doubtful that the weakened economy can sustain this level of activity. The Local Market Monitor in Wellesley, MA tracks what it calls an equilibrium home price, a measure that balances median home prices with personal income data for about 150 of the largest markets in the country. It claims that there are more overvalued markets currently than ever before, indicating a possible real estate bubble, and

that a fall in prices is due. An economist at UC Berkeley's Haas School of Business cites the rising number of foreclosures in California as additional cause for concern. The number of homeowners statewide defaulting on their loans rose 4.9 percent in the first four months of 2002 from the same period one year earlier. In the Bay Area, the increase was 37.6 percent. Although the higher level of defaults hasn't yet affected homes sales, this economist believes it could be a leading indicator of future weakness given expectations of continued labor market weakness ([www.sfgate.com](http://www.sfgate.com)).

## Retail Sales

The local retail sector lost most of the ground gained in March when it soared to a record level. The April *Index* value figure dropped 9.0 percent to 146.9. This represents a slight 0.4 percent improvement from February. A large decrease in food sales and a smaller fall in automobile sales seem to be primarily responsible for the overall drop. Spending at other *Index* participants rose modestly.

National retail sales experienced its largest one-month increase in six months with a 1.2 percent improvement in April. Once again, strong sales of electronics and appliances, and health and personal care items led the gain. Sales of building materials, garden supplies and prepared meals also improved ([www.census.gov](http://www.census.gov) and [www.nytimes.com](http://www.nytimes.com)).

The latest release of the Conference Board's Consumer Confidence Index rose 1.2 percent in April to 109.8. This indicates that consumers remain optimistic about the economy's ongoing recovery ([www.nytimes.com](http://www.nytimes.com)).

## Hospitality

The hospitality sector is up for the second consecutive month. Average occupancy at the participating hotels, motels and inns increased for the third straight month, jumping to 52.2 percent for April from 36.0 percent for March. Based on the performance of this sector in past years, this momentum is expected to continue throughout the summer. The measure is down in most of the year-over-year comparisons.

Despite a gloomy forecast from the California Division of Tourism, which predicts a 5.9 percent decrease in statewide tourist activity this summer from last summer, a number of other indications are pointing towards a strong tourist season locally. According to the Humboldt County Convention and Visitors Bureau, current interest in rural California destinations is much higher than in recent years. Visits to its website have doubled so far this year from the same period last year. The Bureau also reports that direct requests for tourist information are up 66% percent over last year. According to the American Automobile Association of Northern California, gasoline prices statewide are 35 cents per gallon cheaper, on average, than they were at this time last year. Since the current supply of gas is relatively high, prices will probably not rise dramatically in the near future. As a result, traveling by car will be an attractive option for vacationers this summer. Finally, preliminary figures on transient occupancy tax collections for the first quarter of 2002, which compare very favorably with last year's numbers, suggest improving conditions.

## Electricity Consumption

We use kilowatts of electricity consumed as our indicator of the energy sector of the Humboldt county economy. Electricity consumption is a somewhat mixed or ambiguous indicator that usually correlates with economic activity. However, beneficial increases in energy efficiency and conservation reduces the sector's *Index* value. Because we collect our data for this sector quarterly, the *Index* values are estimated, and are revised when the quarterly data are received.

Estimated April consumption climbed an estimated 19.7 percent from the prior month. Though previous experience suggests this figure is overstated, the healthy increase in manufacturing activity indicates that a large increase in electricity consumption probably did occur.

In the wake of revelations that Enron used deceptive and possibly illegal trading activities to manipulate California's deregulated electricity market last year, the Federal Energy Regulatory Commission recently ordered some 150 energy suppliers to provide information on trades that artificially inflated the volume of power they bought and sold. The widening investigation lends credence to the argument that the primary cause of the market failure early in 2001 was the exertion of market power by energy firms in the context of tight supplies and a flawed deregulation plan. If the companies refuse to comply with the order, they could lose the authority to sell wholesale electricity at market-based rates. Should the alleged manipulation be proved widespread, the state is in a much better position to recover an estimated \$8.9 billion in overcharges. It would also potentially allow for the renegotiation or cancellation of \$43 billion in overpriced long-term contracts signed during the height of the crisis ([www.sfgate.com](http://www.sfgate.com)).

## Total County Employment

In their preliminary report for April, the Employment Development Department (EDD) reported that 55,900 people were employed in Humboldt County, up 500 jobs, or 0.9 percent from March's revised figure. Preliminary EDD data indicate the following changes in Humboldt county employment:

- Total county employment in the various service industries increased 0.9 percent from a revised 42,500 in the month of March to a preliminary 42,900 for the month of April. This sector is up 1.7 percent over last year's figure. The Transportation, Hotels and Other Lodging, Social Services, Health Services, and State Education classifications each added roughly 100 positions in March. Other Services, with 100 jobs eliminated, was the only service industry classification to lose ground in April. The preliminary figure for the retail subsector shows 10,900 jobs, which is unchanged from March's upwardly revised figure.
- Total county manufacturing employment came in at 4,800. This is down 2.0 percent from March's revised figure. Some 200 jobs were lost in the Sawmills classification, while about 100 positions were added in Nondurable Goods. Total manufacturing employment is down 7.7 percent from April 2001.

The unemployment rate for Humboldt County declined in April according to the preliminary EDD report. The current 6.4 percent is eight-tenths of a percentage point lower than March's revised 7.2 percent. Meanwhile, the national rate climbed three-tenths of a point to 6.0 percent and the state rate fell four-tenths of a percentage point from March's revised figure to 6.3 percent. As noted in previous reports, most economists expect the national unemployment rate to peak at around 6.5 percent later this summer.

## Lumber Manufacturing

We use a combination of payroll employment and board feet of lumber production at major county lumber companies as our indicator of the manufacturing sector for the Humboldt county economy. Lumber-based manufacturing generates about two-thirds of total county manufacturing employment.

The preliminary *Index* value for this sector is up strongly from March's record low performance. While this will be welcome news to some, the year-over-year comparisons show that the lumber production industry has lost a lot of ground over the past year and a half. Blue Lake Forest Products is the most recent firm to shut down its mill as it reportedly continues to struggle through a reorganization process that began with a bankruptcy filing in 1991. The company's CEO is optimistic that a buyer can be found for the facility that had employed over 90 workers. The sale of Louisiana-Pacific's Arcata particle board plant to a Crescent City firm is pending. Closure of the deal is expected to occur before the end of June. If the sale falls through, L-P will shut down the mill permanently, throwing over 100 people out of work ([www.times-standard.com](http://www.times-standard.com)).

### The Good News

The pending sale of Eel River Sawmills is moving again after having stalled for several weeks. The prospective owners are confident that once the deal is completed, at least one of the company's four mills can be put back into production relatively quickly in order to take advantage of improving market conditions.

Industry analysts claim that the market for redwood lumber, which has been in a trough lately, is poised for a turnaround, and the outlook for 2003 is good. Local producers apparently agree. According to a recent article in the Times-Standard, Pacific Lumber is milling more redwood this year than last and Simpson Timber's new redwood-based decking product is catching on with builders and consumers.

Additional good news for the industry came recently when the United States International Trade Commission unanimously voted to make permanent the large tariffs placed on Canadian softwood lumber. The reduction of cheap imported wood sold on the U.S. market will likely lead to rising prices, which will undoubtedly aid domestic manufacturers ([www.sfgate.com](http://www.sfgate.com)).

### Leading Indicators

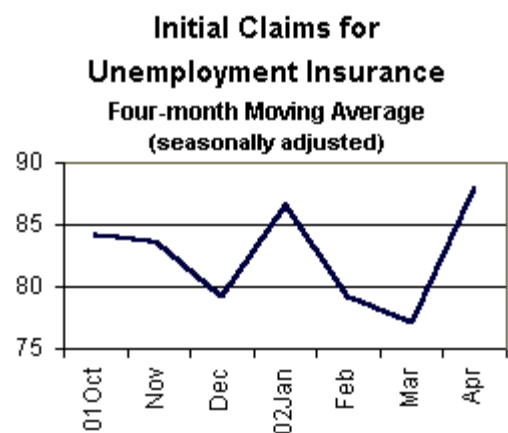
We track four leading indicators to get a sense of the direction of change in the county economy in the near future. The four leading indicators are (i) number of help-wanted advertisements in the *Times Standard*, (ii) number of claims for unemployment insurance, (iii) volume of manufacturing orders, and (iv) number of building permits issued. Our graphs in this section use a four-month moving average in order to "smooth" ordinary month-to-month volatility. In this way, any underlying trends present in the series become more apparent.

#### Employment-Based Economic Indicators:

A count of help-wanted ads indicates the number of new job openings. This indicator jumped 19.1 percent in May. Conditions in the local labor market appear to be in good shape based on the trend of the four-month moving average.



Claims for unemployment insurance indicate the number of newly unemployed people in Humboldt County. Thus the number of new unemployment claims is a negative indicator of economic activity. This volatile indicator soared 31.0 percent in May. We hope many of the newly unemployed are able to find other work relatively quickly.



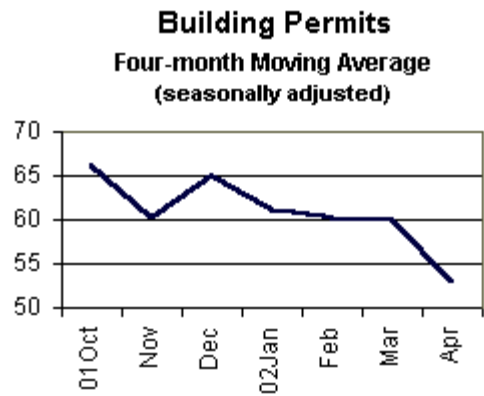
**Manufacturing Economic Indicator:**

Manufacturing orders, are a leading indicator of activity and employment in the County. As noted in the past few reports, the negative trend in the graph below may be indicative of a shrinking number of participants in the local market. A number of other factors, like the pending sale of Eel River Sawmills and the tariff on Canadian softwood lumber, point to improving conditions for local lumber manufacturers.



**Home Sales Economic Indicator:**

The building permits indicator plunged 22.2 percent in May. This is troubling news considering construction activity typically increases this time of year. The four-month trend is obviously pointing downwards, but based on the performance of previous years, we expect activity to pick up in the near future.



**The Bigger Picture**

A revision of Gross Domestic Product growth for the first quarter of 2002 shows that the economic activity surged during the first three months of the year, but not quite as much as was initially reported. The Commerce Department reports that the economy grew by 5.6 percent. The preliminary estimate was 5.8 percent. Reduced estimates of spending by consumers and businesses are behind the downward revision. First quarter consumer spending grew 3.2 percent, down from the initial 3.5 percent. Business spending for the period dropped 8.2 percent, much more than the 5.7 percent previously estimated. Estimates for the second quarter have the GDP growth rate slowing to between 3 percent and 3.5 percent ([www.nytimes.com](http://www.nytimes.com)) The first quarter GDP growth rate will be revised once again as additional data becomes available.

Based on the current data, the decline in economic output during the 2001-02 recession was just 0.3 percent, making it the mildest recession on record. The previous low was the recession of 1969-70, when output fell 0.6 percent([www.nytimes.com](http://www.nytimes.com)). Some analysts believe there is evidence that a severe recession is typically followed by a strong recovery, and conversely, a mild recession is usually followed by a weak recovery. Economists at the Federal Reserve Bank of St. Louis recently put the claim to the test. They looked at the decline in output, measured both by real GDP and industrial production, during the ten post-World War Two recessions. Their conclusion is that while there is a positive correlation between the sizes of a recession and the subsequent recovery, there is no statistically significant relationship.

One of the most vital components of a strong recovery is sustained growth in business investment. Unfortunately, capital spending has decreased for five consecutive quarters. This fact is one of the primary reasons behind the National Bureau of Economic Research's reluctance to declare an official end to the recession. The NBER will likely wait until there are unambiguous and lasting improvements in employment, personal income and industrial production before making the call ([www.sfgate.com](http://www.sfgate.com) and [www.nytimes.com](http://www.nytimes.com)).

As a result of the continued uncertainty, the Fed's Open Market Committee voted unanimously earlier this month to leave interest rates unchanged. The federal funds target rate remains at a forty year low of 1.75 percent.

**Explanatory Note:** For those of you who are new or less familiar with the *Index*, we have been tracking economic activity since January 1994. The composite indices plotted as blue and green lines in the diagram at the top of this page are weighted averages of each of the six sectors described in the table above. Each sectoral index, and the composite index, started at a value of 100 in 1994. Thus if the retail sectoral index value is currently 150, that means that (inflation-adjusted) retail sales among the firms that report data to us are 50 percent higher than in January 1994. We also *seasonally adjust* each sector, and the composite index, to correct for "normal" seasonal variation in the data, such as wet season vs. dry season, and so trends in the seasonally-adjusted composite index (the blue line in the diagram above) provide a better indication of underlying growth and fundamental change in the economy. This month's report reflects data gathered from the previous month, and so the "May 2002" report reflects data from April 2002. As is common, our initial report is preliminary, and as we receive final data we revise our reports accordingly.

[The Eureka Times-Standard website](#)

[The San Francisco Chronicle website](#)

[The Sacramento Bee website](#)

[The New York Times website](#)

[California Association of Realtors website](#)

[National Association of Realtors website](#)

[U.S. Bureau of the Census's Economic Briefing Room webpage](#)



[The Federal Reserve Bank's Beige Book webpage](#)

[Back to Main Index Page](#)



[Send us your comments](#)

Copyright © 2003 [Erick Eschker](#). All Rights Reserved.

